

STATE OF LOUISIANA
LEGISLATIVE AUDITOR

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Northwestern State University
State of Louisiana
Natchitoches, Louisiana

December 18, 1999



Financial and Compliance Audit Division

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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**NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
Natchitoches, Louisiana**

**General Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 1999
With Supplemental Information Schedules**

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the State House and State Capitol offices of the Legislative Auditor and at the office of the parish Clerk of court.

December 16, 1999

**NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
Natchitoches, Louisiana**

**General Purpose Financial Statements
and Independent Auditor's Report
As of and for the Year Ended June 30, 1998
With Supplemental Information Schedules**

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November 20, 1998

Independent Auditor's Report
on the Financial Statements

**NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
Natchitoches, Louisiana**

We have audited the accompanying general purpose financial statements of Northwestern State University, a component unit of the State of Louisiana, as of and for the year ended June 30, 1998, as listed in the foregoing table of contents. These general purpose financial statements are the responsibility of Northwestern State University's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Northwestern State University, as of June 30, 1998, and the changes in fund balances; and the current funds' revenues, expenditures, and other changes for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 20, 1998, on our consideration of Northwestern State University's compliance with certain provisions of laws, regulations, contracts, and grants and on its internal control over financial reporting.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of Northwestern State University, taken as a whole. The accompanying supplemental information, schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements.

LEGISLATIVE AUDITOR

NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA

Audit Report, June 30, 1988

Such information has been subjected to the procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

WJH:MMN:PFL:as

encl.

**NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
BALANCE SHEET - ALL FUNDS**

For the Year Ended June 30, 1993

	CURRENT FUNDS			STUDENT LOAN FUNDS	ENDORSEMENT FUNDS
	GENERAL	AUXILIARY ENTRUSTABLES	RELAYING		
ASSETS					
Cash and cash equivalents	\$113,189	\$1,166,713	\$1,711,768	\$8,139	
Investments	1,713,882				\$1,340,870
Accrued interest	25,594		16,644	181,888	18,248
Accounts receivable	1,407,838	855,281	2,043,857		
Notes receivable				2,487,888	
Deferred charges and prepaid expenses	93,390	2,149	16,892		
Inventory	878,840				
Other assets	558				
Retaindual plan					
TOTAL ASSETS	\$4,203,390	\$1,761,743	\$3,754,961	\$2,688,925	\$1,359,118
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$887,403	\$184,709	\$588,614	\$38	
Accounts payable and other liabilities	1,717,171	94,889	1,214,968		
Deposits held for others	5,000	198,888	5,000		
Deferred expenses	2,048,024	923,881	999,171		
Compensated absences payable	1,488,400	197,884	74,884		
Bonds payable					
Other liabilities				18,838	\$28,882
Total liabilities	\$4,201,408	1,399,381	\$1,686,557	18,876	\$28,882
Fund equity:					
Net investment in plant					
Fund balances:					
Restricted - debt service					
Restricted for investments	878,840		288,888		
Restricted for reimbursements		70,788			
Current operations - unrestricted (deficit)	(1,993,878)		(1,043,716)		
Current operations - restricted		888,140			
Permanent operations:					
Restricted				2,688,884	
Endowment					1,328,888
Total fund equity (deficit)	(1,181,838)	961,959	(1,791,895)	(1,328,884)	1,359,118
TOTAL LIABILITIES AND FUND EQUITY	\$4,203,390	\$1,761,743	\$3,754,961	\$2,688,925	\$1,359,118

The accompanying notes are an integral part of this statement.

UNRECOVERABLE AND REPLACEMENTS	PLANT FUNDS		REPLACEMENT IN PLANT	AGENCY FUND	TOTAL (UNRECOVERABLE AND REPLACEMENTS) (201)
	RECOVERABLE AND REPLACEMENTS	REPLACEMENT OF DEPRECIATED EQUIPMENT			
\$750,000	\$4,000	\$10,000		\$500,000	\$4,000,000
				10,000	3,000,000
10,000				\$500,000	3,000,000
					4,000,000
					3,000,000
					300,000
				1,000	1,000
			\$2,000,000		110,000,000
<u>\$750,000</u>	<u>\$4,000</u>	<u>\$10,000</u>	<u>\$2,000,000</u>	<u>\$500,000</u>	<u>\$120,000,000</u>
	\$4,000			\$500,000	\$1,000,000
				100,000	1,000,000
\$40,000					3,000,000
			\$100,000		1,000,000
					200,000
<u>\$40,000</u>	<u>\$4,000</u>	<u>\$100,000</u>	<u>\$100,000</u>	<u>\$500,000</u>	<u>\$1,000,000</u>
			\$11,000,000		111,000,000
		\$10,000			10,000
10,000					300,000
					300,000
					11,000,000
					1,000,000
<u>100,000</u>	<u>\$4,000</u>	<u>\$10,000</u>	<u>\$11,000,000</u>	<u>\$500,000</u>	<u>110,000,000</u>
<u>\$750,000</u>	<u>\$4,000</u>	<u>\$10,000</u>	<u>\$2,000,000</u>	<u>\$500,000</u>	<u>\$120,000,000</u>

**NORTHEASTERN STATE UNIVERSITY
STATE OF LOUISIANA**

**Statement of Changes in Fund Balances
For the Year Ended June 30, 1998**

	CURRENT FUNDS			STUDENT LOANS
	GENERAL	ENTERPRISES	RESTRICTED	
Revenues and other additions:				
Unrestricted current fund-revenues	\$400,000,704			
Tuition and fees - restricted			\$2,804,181	
State appropriations - restricted			117,718	
Federal grants and contracts - restricted			13,448,858	\$290,379
State grants and contracts - restricted			2,154,000	
Private gifts, grants, and contracts			388,000	
Salaries and salaries of educational departments			187,500	
Investment income - restricted			68,580	57,641
Auxiliary enterprise revenue		\$4,802,169		
Interest on loans receivable				57,781
Retention of endowments				
Additions to plant facilities				
Other sources			471,174	1,004
Total revenues and other additions	<u>400,000,704</u>	<u>4,802,169</u>	<u>4,064,003</u>	<u>307,005</u>
Expenditures and other deductions:				
Educational and general	37,844,878	546,423	\$1,073,624	
Auxiliary enterprise		5,249,249		
Expenditures plant facilities				
Interest bonds borrowed			167,878	
Loan-deductions and write-offs				190,394
Retention of endowments				
Interest on indebtedness				
Retention to previous			44,314	101,138
Disposal of plant facilities				
Compensated absences	177,100	2,400	23,581	
Other	474,766			
Total expenditures and other deductions	<u>38,496,744</u>	<u>5,251,772</u>	<u>1,245,083</u>	<u>291,532</u>
Transfers among funds - additions (deductions):				
Miscellaneous				
Principal and interest			(378,241)	
Loan fund matching grants	(48,417)			48,417
Other	(692,200)	(718)	562,200	
Inventory				
Revenues and replacements		(342,888)		
Other	(2,378,858)	2,018,838	1,480	
Total transfers among funds	<u>(3,119,475)</u>	<u>(1,002)</u>	<u>183,439</u>	<u>97,834</u>
Inventory increase	<u>4,818</u>	<u>10,000</u>	<u>(2,000)</u>	<u>4,000</u>
Net increase (decrease) for the year	<u>(144,417)</u>	<u>(100,000)</u>	<u>188,960</u>	<u>16,473</u>
Fund balances (initially) at July 1, 1997, revised	<u>(792,443)</u>	<u>1,054,110</u>	<u>2,885,750</u>	<u>(238,234)</u>
Fund balances (initially) at June 30, 1998	<u>(936,860)</u>	<u>954,110</u>	<u>3,074,710</u>	<u>(221,761)</u>

The accompanying notes are an integral part of this statement.

Statement D

ENCUMBRANCE Funds	PLANT FUNDS				TOTAL (REMAINING ONLY)
	UNAPPORTIONED	REPLACEMENTS AND	RETIREMENT OF	INVESTMENT IN PLANT	
		REPLACEMENTS	ACQUISITIONS		
	\$221,280				\$221,280
					1,823,728
					147,888
					8,182,878
					1,754,888
					858,888
					231,888
					228,888
\$17,280	\$6,888	\$24,888	\$31,888		4,888,888
					87,788
				\$1,488,888	1,488,888
				4,888,788	4,888,788
	\$88,888				1,431,888
17,280	1,247,288	27,888	31,888	2,748,788	68,888,788
					88,717,288
					8,888,888
		748,888			748,888
					157,888
					188,888
			1,237,888		1,237,888
			147,888		147,888
					188,888
				1,288,888	1,288,888
	\$1,288				2,888,888
8,888	87,788		88,888		888,888
8,888	87,788	748,888	1,888,788	1,288,888	88,888,888
	\$488,888	\$888,888	1,888,788		
	11,888		4,888		
	\$887,788	748,888			
11,888	1,888,888	1,888,888	2,888,888	5,888	748,888
88,888	8,888	5,888	88,888	88,888	4,888
88,888	88,778	888,788	888,788	4,888,888	4,888,488
1,288,888	888,888	888,788	888,888	1,888,778	11,888,888
\$1,288,888	\$778,888	\$888	\$1,888	\$11,888,888	\$11,888,888

**NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
CURRENT FUNDS**

**Statement of Revenues, Expenditures,
and Other Changes
For the Year Ended June 30, 1988**

	GENERAL	AUXILIARY ENTERPRISES	RESTRICTED
Revenues:			
Tuition and fees	\$48,552,407	\$1,100,000	\$2,883,889
State appropriations	23,718,888		147,810
Federal grants and contracts			8,825,864
State grants and contracts	54,588		2,880,718
Private gifts, grants, and contracts			70,784
Sales and services of educational departments	470,058		321,581
Investment income	288,478		42,820
Auxiliary enterprise (revenue)		3,628,408	
Administrative expense recovery	81,784		
Other revenues	585,188	173,078	438,478
Total revenues	45,833,751	4,882,516	14,583,309
Expenditures and transfers:			
Educational and general:			
Instruction	16,208,208		3,833,439
Research	588,150		255,782
Public service	81,640		800,714
Academic support	3,700,473		1,128,839
Student services	2,379,884		379,650
Institutional support	5,895,726		40,800
Operations and maintenance of plant	3,778,803		99,000
Scholarships and fellowships	3,845,883	688,620	7,829,329
Compensated absences	(71,188)	2,488	(3,091)
Other	475,780		19,888
Total educational and general expenditures	38,265,818	691,208	16,088,842
Mandatory transfers for:			
Loan fund matching grants	48,417		
Other	882,208		(682,358)
Nonmandatory transfers for - other	2,819,836		(1,411)
Total mandatory and nonmandatory transfers	2,850,281	69,000	(683,849)
Auxiliary enterprises:			
Expenditures		5,046,091	
Mandatory transfers for:			
Principal and interest		781,241	
Other		438	
Nonmandatory transfers for:			
Reimburse and replacements		312,889	
Other		(2,819,888)	
Total auxiliary enterprises		4,864,811	
Total expenditures and transfers	41,873,885	5,355,899	14,505,252
Other additions (deductions):			
Excess of restricted receipts over transfers in revenues			183,373
Inventory increase (decrease)	4,818		
Other			(44,748)
Net increase (decrease) in fund balances	\$419,656	(513,383)	\$188,389

The accompanying notes are an integral part of this statement.

**NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA**

**Notes to the Financial Statements
As of and for the Year Ended June 30, 1999**

INTRODUCTION

Northwestern State University is a publicly supported institution of higher education. The university is a component unit of the State of Louisiana, within the executive branch of government. The university is under the management and supervision of the University of Louisiana System Board of Trustees; however, the annual budget of the university and changes to the degree programs, departments of instruction, et cetera, require the approval of the Louisiana Board of Regents. As a state university, operations of the university's instructional programs are funded through annual lapsing appropriations made by the Louisiana Legislature.

Northwestern State University is located in Natchitoches, Louisiana, and serves as a cultural and educational center for central and northwest Louisiana. As an open admissions institution, with the Louisiana Scholars' College selective admissions component, Northwestern State University attracts students with a wide range of backgrounds. The university offers associate, baccalaureate, and selected masters and specialists degrees in the areas of liberal arts, education, music, the sciences, and science-related technologies. In addition, the university offers off-campus program activities at the Nursing Education Center in Shreveport, the Fort Polk Center in Leesville, and England Industrial Park and Louisiana State University at Alexandria. Enrollment on all campuses of the university was 8,873, 8,360 and 4,227, respectively, during the fall, spring, and summer semesters of the 1997/98 fiscal year. The university has 314 full-time faculty, 189 part-time faculty, and 404 staff members.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Governmental Accounting Standards Board (GASB) recognizes two models for college and university accounting and financial reporting in GASB Statement No. 15: the American Institute of Certified Public Accountants (AICPA) College Guide model, and the Governmental model, established by the National Council on Governmental Accounting. The accompanying financial statements have been prepared in accordance with the AICPA College Guide model principles.

B. REPORTING ENTITY

The GASB, Code Section 2100, has defined the governmental reporting entity to be the State of Louisiana. Therefore, the accompanying financial statements of the university contain sub-account information of the various funds of the State of Louisiana. The university is considered a component unit of the State of Louisiana because the state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) a majority of the members of the governing boards are appointed by the governor; (2) the state has control and exercises authority over budget matters; (3) state

NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

appropriations provide the largest percentage of total revenues; (4) the state issues bonds to finance certain construction; and (5) the university primarily serves state residents. The accompanying financial statements present information only as to the transactions of the programs of Northwestern State University as authorized by Louisiana statutes and administrative regulations.

Annually, the State of Louisiana issues general purpose financial statements, which include the activity contained in the accompanying financial statements. The general purpose financial statements are audited by the Louisiana Legislative Auditor.

C. FUND ACCOUNTING

To overcome the limitations and restrictions placed on the use of available resources, the accounts of the university are maintained in accordance with the principles of fund accounting. Each principle prescribes the manner in which resources for various purposes are classified, for accounting and reporting purposes, into funds that are in accordance with specified activities or objectives. Accounts are separately maintained for each fund; however, in the accompanying financial statements, funds having similar characteristics have been combined into fund groups. Accordingly, all financial statements have been reported by fund groups. A brief description of each fund group follows:

Current Funds

Current funds are operating funds that will be expended in the near term. Such funds have two basic sub-groups, unrestricted and restricted.

Unrestricted current funds include all funds for operating purposes on which there are no restrictions, except the budgetary control provisions included in the annual legislative appropriation act, and include the General Fund. Restricted current funds represent those operating funds on which restrictions have been imposed that limit the purposes for which such funds can be used and include auxiliary enterprise funds and gifts, grants, or contracts from governmental or private agencies.

Student Loan Funds

The student loan funds group accounts for resources available for loans to students.

Endowment Funds

Endowment funds are funds with respect to which donors or other outside agencies have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of

NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

producing present and future income that may either be expended or added to principal.

Plant Funds

The plant funds group contains four self-balancing subgroups. Unexpended plant funds are used for the acquisition of long-lived assets for institutional purposes. Funds for renewals and replacements are set aside from current operating revenues for the renewal and replacement of auxiliary enterprise properties. Funds for retirement of indebtedness are to service plant indebtedness of the university. Investment in plant includes all long-lived assets of the university. Certain plant assets are provided directly by the state and are funded by general obligation bonds of the state. While the plant assets are included in the financial statements, the general obligation bonds are not since they are funded by the state treasurer.

Agency Funds

Agency funds are deposits in which the university acts as custodian or fiscal agent on behalf of others, such as student or faculty organizations and workshops.

D. BASIS OF ACCOUNTING

The financial statements of the university have been prepared on the accrual basis of accounting, except that (1) depreciation is not recognized; (2) summer school tuition and fees and faculty salaries and related benefits for June are not accrued but are deferred to the succeeding year, except for Shreveport nursing instructor salaries; and (3) inventories of the General Fund are recorded as expenditures at the time of purchase.

The statement of current funds' revenues, expenditures, and other changes is a statement of financial activities of current funds relating to the current reporting period. It does not purport to present the results of operations (net income or loss) for the period, as would a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as expenditures in the case of normal acquisitions, repairs, and renovations; mandatory transfers in the case of required provisions for debt amortization and interest; and as transfers of a nonmandatory nature for all other cases.

E. BUDGET PRACTICES

The appropriation made for the General Fund of the university is an annual lapping appropriation established by legislative action and by Title 39 of the Louisiana Revised

NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
 Notes to the Financial Statements (Continued)

Statutes. The statute requires that the budget be approved by the Louisiana Board of Regents and certain legislative and executive branches of state government. Budget revisions are granted by the Joint Legislative Committee on the Budget. In compliance with these legal restrictions, budgets are adopted on the accrual basis of accounting, except that (1) depreciation is not recognized; (2) leave costs are treated as budgeted expenditures to the extent that they are expected to be paid; (3) summer school tuition and fees and summer school faculty salaries and related benefits for June are not provided but are recognized in the succeeding year, except for three-part nursing instructor salaries; and (4) inventories in the General Fund are recorded as expenditures at the time of purchase.

The budget amounts include the original approved budget and subsequent amendments approved as follows:

Original approved budget	\$41,499,268
Amendments:	
Higher Education Enhancement and Library	
Funds from the Board of Regents in accordance	
with Act 18	<u>1,290,366</u>
Total budgeted amounts	<u>\$42,789,634</u>

F. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash includes cash on hand, demand deposits, and interest-bearing demand deposits. Cash equivalents include amounts in United States Treasury bills. Cash and cash equivalents are stated at cost, which approximates market. Under state law, Northwestern State University may deposit funds within fiscal agent banks organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. Furthermore, the university may invest in certificates of deposit of state banks organized under Louisiana law and national banks having their principal offices in Louisiana. Certificates of deposit will be classified as investments where the maturity dates are 90 days or more from the purchase dates. These certificates of deposit are also stated at cost.

In accordance with Louisiana Revised Statute (R.S.) 48:327(C)(3), the university is authorized to invest funds in direct United States Treasury obligations. These are classified as investments if their original maturity dates exceed 90 days; however, if the original maturity dates are 90 days or less, they are classified as cash equivalents.

NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

G. INVENTORIES

Inventories are valued at the lower of cost or market. The university uses both perpetual and periodic inventory systems and values its inventory using the first-in, first-out (FIFO) valuation method, except for the warehouse inventory, which uses the weighted average method. Inventories in the General Fund are reported as expenditures at the time of purchase. Year-end balances are offset by a fund balance reserve that indicates this portion of the fund balance does not constitute available spendable resources.

H. DEFERRED REVENUES

Tuition and fees collected at June 30, 1999, but applicable to the 1999 summer session, are reported as deferred revenues. Expenses relating to this session are reported in the period the tuition and fees are recognized as revenues.

I. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve fund balances, is employed by the university. Encumbrances outstanding at year-end in all funds, except for the General Fund, are reported as reservations of fund balance since they do not constitute expenditures or liabilities in the year encumbered. Encumbrances of the General Fund are not included in the financial statements because the university does not have the ability to finance the liquidation of encumbrances after June 30, 1999, as provided by R.S. 39:92.

J. PLANT ASSETS

Physical plant and equipment are stated at cost at the date of acquisition, estimated cost if actual cost is not known, fair market value at date of donation in the case of gifts, or market value for livestock. Certain improvements to infrastructure are capitalized. No depreciation has been provided on plant assets. Construction in progress is capitalized during construction.

K. COMPENSATED ABSENCES

Employees accrue and accumulate annual and sick leave in accordance with state law and administrative regulations. The leave is accumulated without limitation; however, nine-month faculty members do not accrue annual leave but are granted faculty leave during holiday periods when students are not in classes. Employees who are considered having non-exempt status according to the guidelines contained in the Fair Labor Standards Act may be paid for compensatory leave earned.

NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

Upon separation of employment, both classified and non-classified personnel or their heirs are compensated for accumulated annual leave not to exceed 300 hours. In addition, academic and non-classified personnel or their heirs are compensated for accumulated sick leave not to exceed 25 days upon retirement or death. Act 343 of 1993 allows members of the Louisiana State Employees Retirement System, upon application for retirement, the option of receiving an actuarially determined lump sum payment for annual and sick leave which would otherwise have been used to compute years of service for retirement. Unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits.

Upon termination or transfer, a classified employee will be paid for any one and one-half hour compensatory leave earned and may or may not be paid for any straight hour-for-hour compensatory leave earned. Compensation paid will be based on the classified employee's hourly rate of pay at termination or transfer.

L. TOTAL COLUMNS ON STATEMENTS

Total columns on the statements are captioned Memorandum Only (overview) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations. Neither are such data comparable to a consolidation.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

At June 30, 1998, the university has cash and cash equivalents and investments in certificates of deposit (bank balances) totaling \$7,358,326 as follows:

Cash on hand	\$25,974
Demand deposits	2,138,387
United States Treasury Bills	1,985,787
Cash in state treasury	18,126
Total cash and cash equivalents	<u>4,158,273</u>
Certificates of deposit classified as investments	<u>3,199,453</u>
Total	<u>\$7,358,326</u>

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. At June 30, 1998, the university has \$8,034,810 in deposits (collected bank balances). These deposits are secured from risk by

NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

\$235,136 of federal deposit insurance (GAAP Category 1) and \$7,006,650 of pledged securities held by the custodial bank in the name of the fiscal agent bank (GAAP Category 3).

Also included in cash equivalents are United States Treasury Bills totaling \$1,065,787. These treasury bills are reported in Statement A at cost, which approximates market. The treasury bill is in the university's name and is held by a federal reserve bank.

Included in cash is cash available to the university within the state treasury totaling \$18,125. Securities pledged for cash in the state treasury are not included in the above computations as these amounts are secured by fiscal agent banks established by the state treasury independent of the university.

3. ACCOUNTS RECEIVABLE

Accounts receivable are shown on Statement A, net of an allowance for doubtful accounts as follows:

Fund	Accounts Receivable	Allowance for Doubtful Accounts	Net Statement A
General	\$1,487,008		\$1,487,008
Auxiliary Enterprises	667,858	\$52,577	615,281
Restricted	3,013,857		3,013,857
Unexpended Plant	31,033		31,033
Agency	36,576		36,576
Total	<u>\$4,736,332</u>	<u>\$52,577</u>	<u>\$4,703,755</u>

4. NOTES RECEIVABLE

Notes receivable within the student loan funds are shown on Statement A, net of an allowance for uncollectibles as follows:

NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
 Notes to the Financial Statements (Continued)

	Notes Payable	Allowance for Uncollectibles	Net Statement A
Pertains Loan	\$3,740,123	\$441,357	\$2,298,755
Nursing Student Loans	152,002	33,850	118,052
Total	<u>\$3,892,125</u>	<u>\$475,207</u>	<u>\$2,417,648</u>

5. PENSION PLANS

Plan Description. Substantially all employees of the university are members of two statewide, public employee retirement systems. Academic employees are generally members of the Louisiana Teachers Retirement System (TRS), and classified/unclassified state employees are members of the Louisiana State Employees Retirement System (LASERS). Both plans are cost-sharing, multiple-employer defined benefit pension plans administered by separate boards of trustees. TRS and LASERS provide retirement, disability, and survivors' benefits to plan members and beneficiaries. Benefits granted by the retirement systems are guaranteed by the State of Louisiana by provisions of the Louisiana Constitution of 1974. Generally, all full-time employees are eligible to participate in the systems, with employee benefits vesting after 10 years of service. Article 15, Section 28 of the Louisiana Constitution of 1974 assigns the authority to establish and amend benefit provisions to the state legislature. The systems issue annual publicly available financial reports that include financial statements and required supplementary information for the systems. The reports may be obtained by writing to the Teachers Retirement System of Louisiana, Post Office Box 94123, Baton Rouge, Louisiana 70804-9123, or by calling (225) 928-6448 and/or the Louisiana State Employees Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804, or by calling (225) 922-0660.

Funding Policy. The contribution requirements of plan members and the university are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. Employees contribute 8% (TRS) and 7.5% (LASERS) of covered salaries. The state is required to contribute 15.4% of covered salaries to TRS and 13% of covered salaries to LASERS. The university's employer contribution is funded by the State of Louisiana through the annual appropriation to the university. The university's employer contributions to TRS for the years ended June 30, 1995, 1997, and 1998, were \$2,570,006, \$2,821,663, and \$2,480,256, respectively, and to LASERS for the years ended June 30, 1995, 1997, and 1998, were \$732,229, \$673,145, and \$625,574, respectively, equal to the required contributions for each year.

6. OPTIONAL RETIREMENT SYSTEM

R.S. 11:821 created an optional retirement plan for academic and administrative employees of public institutions of higher education. This program was designed to aid universities in

NORTHWESTERN STATE UNIVERSITY
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Notes to the Financial Statements (Continued)

recruiting employees who may not be expected to remain in the TRS for 10 or more years. The purpose of the optional retirement plan is to provide retirement and death benefits to the participants while affording the maximum portability of these benefits to the participants.

The optional retirement plan is a defined contribution plan that provides for full and immediate vesting of all contributions remitted to the participating companies on behalf of the participants. Eligible employees make an irrevocable election to participate in the optional retirement plan rather than the TRS and purchase retirement and death benefits through contracts provided by designated companies.

Total contributions by the university are 15.4% of the covered payroll. The participant's contribution (5%), less any monthly fee required to cover the cost of administration and maintenance of the optional retirement plan, is remitted to the designated company or companies. Upon receipt of the employer's contribution, the TRS pays over to the appropriate company or companies, on behalf of the participant, an amount equal to the employer's portion of the normal cost contribution as determined annually by an actuarial committee. The TRS retains the balance of the employer contribution for application to the unfunded accrued liability of the system. Benefits payable to participants are not the obligations of the State of Louisiana or the TRS of Louisiana. Such benefits and other rights of the optional retirement plan are the liability and responsibility solely of the designated company or companies to whom contributions have been made. Employer contributions to the optional retirement plan totaled \$1,957,554 for the year ended June 30, 1998.

**7. POSTRETIREMENT HEALTH CARE
AND LIFE INSURANCE BENEFITS**

The university provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the university's employees become eligible for these benefits if they reach normal retirement age while working for the university. These benefits for retirees and similar benefits for active employees are provided through a state-operated group insurance program and various insurance companies whose monthly premiums are paid jointly by the employee and the university. The university recognizes the cost of providing these benefits to retirees (university's portion of premiums) as an expenditure when paid during the year. These retiree benefits totaled \$701,523 for 308 retirees for the year ended June 30, 1998.

8. CONTINGENT LIABILITIES

Losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund or by General Fund appropriation and are not reflected in the university's financial statements. The university is involved in 17 lawsuits as June 30, 1998. In the opinion of legal counsel for the university, these lawsuits have not progressed to a point where the likelihood of the outcome or any estimate of the amount or range of potential loss can be determined.

NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

9. COMPENSATED ABSENCES

At June 30, 1988, employees of the university have accumulated and vested annual leave, sick leave, and compensatory leave of \$1,278,221, \$368,032, and \$22,080, respectively, which was computed in accordance with GASB Codification Section 060. The leave payable is recorded in the accompanying financial statements.

10. COMPENSATORY LEAVE

At June 30, 1988, unclassified employees of the university have accumulated compensatory leave of \$381,138. In accordance with the University of Louisiana System Board of Trustees' policy, compensatory leave is hours accrued and used by unclassified employees (12-month) for work and duties performed in excess of the normal 40-hour work week. No more than 240 hours of compensatory leave may be carried forward to the new fiscal year. Upon separation of employment, the unclassified employee is not compensated for these hours.

Classified employees of the university have accumulated compensatory leave of \$22,080 at June 30, 1988. For classified employees, all unused compensatory leave earned at the time and one-half rate and credited to an employee shall be paid upon separation or transfer from the university. All unused compensatory leave earned hour for hour and credited to an employee may be paid upon separation or transfer. If such compensatory leave earned hour for hour is not paid upon separation or transfer, it is forfeited. Caps on accumulation of compensatory leave for classified employees are covered by Civil Service Rule 5.25.

11. LEASE OBLIGATIONS

On November 1, 1989, the University of Louisiana System Board of Trustees (Board) entered into an operating lease agreement with the City of Hattiesburg, Louisiana, for airport space. This was done on behalf of Northwestern State University for use by its Aviation Science Department. This lease is for the period November 1, 1989, through October 31, 1990.

On January 6, 1989, the Board entered into an operating sub-lease agreement with the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College for classroom space. This was done on behalf of Northwestern State University for purposes of higher education only. This sub-lease has been renewed for the period July 1, 1988, through June 30, 1989.

On January 6, 1989, the Board entered into an operating sub-lease agreement with England Economic and Industrial Development District. This was done on behalf of Northwestern State University for space to be used as a Child Development Center. The sub-lease has been renewed for the period February 1, 1988, through January 31, 1989.

NORTHWESTERN STATE UNIVERSITY
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Notes to the Financial Statements (Continued)

On March 21, 1987, the Board entered into an operating sub-lease agreement with the England Economic and Industrial Development District. This was done on behalf of Northwestern State University for use by its Aviation Science Department. This lease is for the period February 1, 1988, through January 31, 1989.

Lease agreements have non-appropriation exculpatory clauses that allow lease cancellation if the legislature does not make an appropriation for its continuance during any future fiscal period. Operating lease expenditures for fiscal year 1987-88 totaled \$108,606. Operating leases are all leases that do not meet the criteria of a capital lease. Operating leases are grouped by nature (i.e., office space, equipment, etc.) and the annual rental payments for the next fiscal year following June 30, 1988, are as follows:

<u>Nature of Operating Leases</u>	<u>1988-1989</u>
Airport space	\$2,000
Classroom space	122,500
Child Development Center	32,000
Total	<u>\$127,500</u>

Note 25 describes the details of the university's housing facility agreement. The university does not have any other material operating or capital leases at June 30, 1988.

12. LONG-TERM DEBT

The following is a summary of bond transactions of the university for the year ended June 30, 1988.

Bonds payable at July 1, 1987	\$3,874,000
Bonds retired	(364,000)
Bonds defeased	<u>(3,106,000)</u>
Bonds payable at June 30, 1988	<u>\$378,000</u>

NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

A detailed summary of all debt outstanding at June 30, 1988, including interest payments of \$194,707, follows:

Issue	Date of Issue	Original Issue	Outstanding June 30, 1987	Redeemed (Issued)
Student Housing:				
Series A of 1980	Oct. 1, 1980	\$1,204,000	\$85,000	\$95,000
Series B of 1980	Oct. 1, 1980	524,000	100,000	25,000
Series C of 1981	Oct. 1, 1981	600,000	129,000	24,000
Series A of 1984	Apr. 1, 1984	2,000,000	625,000	75,000
Revenue Bonds of 1985	Apr. 1, 1985	6,100,000	2,575,000	200,000
General Obligation Bonds				
Series 1993-B	Feb. 1, 1993	450,000	380,000	15,000
Total		<u>\$10,978,000</u>	<u>\$3,674,000</u>	<u>\$394,000</u>

The annual requirements to amortize the outstanding General Obligation Bonds, Series 1993-B at June 30, 1988, including interest of \$194,707 are as follows:

1989	\$35,571
2000	34,870
2001	34,139
2002	33,294
2003	37,254
Subsequent years	<u>389,608</u>
Total	<u>\$599,707</u>

On February 27, 1988, the University of Louisiana Board of Trustees adopted a resolution authorizing the defeasement of the university's outstanding Louisiana State Board of Education, Northwestern State College of Louisiana, Student Housing System Revenue Bonds 1980 Series B, 1981 Series C, 1984 Series A, and Revenue Bonds of 1985. The issues had outstanding principal balances of \$75,000, \$195,000, \$500,000, and \$2,575,000, respectively. The bond issues had debt balances (principal and interest) of \$3,082,404 as of July 1, 1987.

<u>Deferred</u>	<u>Outstanding June 30, 1998</u>	<u>Maturities</u>	<u>Interest Rates</u>	<u>Interest Outstanding June 30, 1998</u>
\$75,000				
100,000				
660,000				
2,375,000				
	<u>\$305,000</u>	<u>1998-2014</u>	<u>4.5-7.0%</u>	<u>\$184,707</u>
<u>\$3,105,000</u>	<u>\$305,000</u>			<u>\$184,707</u>

NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

On March 6, 1995, the bond issues were defeased. A portfolio of securities totaling \$2,885,675 was necessary to defease the bonds. Additional defeasement cost of \$60,001 was incurred by the Escrow Agent. The university obtained the funds necessary for the defeasement from the following sources:

Housing System Revenue Repair and Replacement Reserve	\$915,802
Housing System Revenue Bond Reserve	668,876
Proceeds from the sale of land	911,975
Excess funds	<u>309,523</u>
Total	<u>\$2,006,176</u>

The General Obligation Bonds, Series 1993-B, dated February 1, 1993, are general obligation bonds of the state serviced by the state treasury that are reimbursed by the university from vehicle registration fees. The reimbursement contract requires that the university deposit \$2,625 in a reserve account with the state treasurer, annually, until the deposits total \$38,250. At June 30, 1995, the reserve totals \$19,125.

12. GENERAL FUND

As provided by Act 971 of 1985 (R.S. 17:3386(A)), the university adopted a building and facility preventative maintenance program, which was approved by the Louisiana Board of Regents. This program allows the university to expend appropriated funds during subsequent fiscal years that were unexpended and unobligated at June 30, 1995. At least 50% of these funds must be used solely for preventative maintenance purposes, in accordance with the approved program, subject to approval by the University of Louisiana Board of Trustees, the Louisiana Board of Regents, and the Joint Legislative Committee on the Budget. All retained funds will be spent for non-recurring projects. The university retained \$9,985 of its state General Fund appropriation for such purposes (Act 971 of 1985).

The General Fund contributed or provided general support to the athletic department totaling \$2,602,038 for the year ended June 30, 1995.

14. PRIOR-YEAR FUND BALANCE RESTATEMENT

The following adjustments were made to restate beginning fund balances for July 1, 1997, to recognize an additional liability for compensatory absences in the financial statements:

NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

	<u>Fund Balance</u> <u>June 30, 1995</u>	<u>Adjustments</u>	<u>Fund Balance</u> <u>(Deficit)</u> <u>Realized</u>
Current Funds:			
General	(\$735,886)	(\$21,727)	(\$757,612)
Auxiliary Enterprises	1,052,304	(5,217)	1,047,117
Restricted	2,805,470	(888)	2,804,582

16. FUND EQUITY (Deficit)

Fund balances (deficit) at June 30, 1995, as shown on Statement A, are as follows:

	<u>Unrestricted</u>	<u>Internally</u> <u>Restricted</u>	<u>Externally</u> <u>Restricted</u>	<u>Total</u>
Current Funds:				
General	(\$1,052,678)	\$478,641		(\$574,037)
Auxiliary Enterprises			\$750,937	750,937
Restricted		2,131,981	682,184	2,814,165
Recurrent Funds:				
Student Loan Funds			2,888,801	2,888,801
Endowment Funds			1,328,481	1,328,481
Plant Funds:				
Unexpended Plant			712,408	712,408
Retirement of Indebtedness			18,128	18,128
Total	<u>(\$1,052,678)</u>	<u>\$478,641</u>	<u>\$6,028,804</u>	<u>\$5,454,767</u>

As shown on Statement A, as of June 30, 1995, the General Fund has a deficit of \$1,052,678 in current operations - unrestricted. Of this total, \$1,408,439 is a result of adjustments for compensated absences. In addition, \$449,443 is the result of a final determination letter requiring the university to repay the federal government for unallowable cost from previous years. The university intends to liquidate this deficit with future financial resources.

18. STUDENT LOAN FUNDS

The fund balances of the student loan funds at June 30, 1995, are as follows:

Pertinent Loans	\$2,493,109
Nonrecourse Student Loans	<u>126,782</u>
Total	<u>\$2,619,891</u>

NORTHWESTERN STATE UNIVERSITY
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Notes to the Financial Statements (Continued)

17. PLANT FUNDS

The restricted fund balances of the unexpended plant funds at June 30, 1998, are as follows:

Building Use Fee Fund	\$459,723
Vehicle Registration Fund	155,183
Auxiliary Enterprises Fund	<u>72,820</u>
Total	<u>\$712,496</u>

In August 1997, the Financial Accounting Standards Board (FASB) issued Statement No. 80, *Recognition of Depreciation by Not-for-Profit Organizations*, which requires not-for-profit organizations, including colleges and universities, to recognize depreciation of their long-lived tangible assets in their financial statements. In January 1998, the GASB issued Statement No. 5, which addresses the implementation of FASB Statement No. 80. Codification of Governmental Accounting and Financial Reporting Standards Section G85-102 states that "Colleges and universities that follow the AICPA Industry Audit Guide, *Audits of Colleges and Universities*, should not change their accounting and reporting for depreciation of capital assets as a result of FASB Statement No. 80; the GASB has several projects under way that may affect that reporting." As reflected in note 1-D, depreciation is not currently recognized by the university.

Construction project number 19-821-93-06, financed by federal revenue budgeted in the Capital Outlay Appropriations Act, is handled by the Office of Facility Planning and Control and is recorded in the appropriate university fund. The federal funds are received directly by the Office of Facility Planning and Control.

As of June 30, 1998, the university has work-in-progress totaling \$131,076, which is reported by Facility Planning and Control and not included in the university's financial statements.

A summary of investment in plant follows:

	Balance July 1, 1997	Additions	Deletions	Balance June 30, 1998
Land	\$1,308,070		\$2,941	\$1,305,129
Improvements	9,551,187	\$259,854		9,811,151
Buildings	70,762,886	888,854		71,651,740
Equipment	20,713,733	2,645,167	1,368,276	21,990,624
Library books	6,714,644	545,253	21,045	7,238,852
Livestock	<u>8,580</u>	<u>758</u>		<u>9,338</u>
Total	<u>\$128,148,172</u>	<u>\$14,349,768</u>	<u>\$1,390,661</u>	<u>\$152,211,299</u>

NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

In accordance with R.S. 38:321-332, the university has complied with the Louisiana movable property statutes.

18. AUXILIARY ENTERPRISES

The university maintains various auxiliary enterprise funds that provide services to the university community. Segment information for the year ended June 30, 1998, follows:

	<u>Food Services</u>	<u>Housing</u>	<u>Bookstore</u>
Net increase (decrease) in fund balances	\$228,417	(\$577,855)	\$125,018
Net income (loss)	251,702	(737,838)	128,154
Net assets	70,544	348,871	28,333

The present accounting system does not provide for individual accounting of balance sheet and fixed assets accounts for each auxiliary enterprise.

19. FOUNDATIONS

The accompanying financial statements do not include the accounts of the Northwestern State University Foundation, Incorporated, or the Northwestern State University Alumni Association. The foundation is a separate corporation, and the alumni association is a branch of the foundation whose financial statements are subject to audit by independent certified public accountants. The foundation and alumni association were last audited for the fiscal year ended June 30, 1997.

Operating expenses of the Northwestern State University Foundation, Incorporated, for the year (assumed by Northwestern State University and included in the General Fund expenditures) are summarized as follows:

Salaries and related benefits	\$63,855
Travel	1,060
Operating services	<u>16,863</u>
Total	<u>\$81,778</u>

<u>Recreation</u>	<u>Student Center</u>	<u>Others</u>	<u>Total</u>
\$53,393	\$438,118	(\$223,388)	(\$356,180)
139,937	517,637	(8,371)	281,515
278,332	118,115	(144,888)	706,637

**NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

**20. LOUISIANA STATE UNIVERSITY
AGRICULTURAL CENTER**

For the year ended June 30, 1998, funds were appropriated to the Louisiana State University Agricultural Center, of which \$147,670 was used at Northwestern State University for the operation of a River Water Research Station in Louisiana. This amount is included in the Restricted Funds' revenues and expenditures.

21. RED RIVER WATERWAY COMMISSION

On November 3, 1994, the university entered into a cooperative endeavor with the Red River Waterway Commission to construct, maintain, and operate the Red River Water Research Station in Louisiana to conduct research on the feasibility of using water for aquaculture, agriculture, and related endeavors such as sport fishing and conservation of wildlife. The terms of occupancy of the property by the university shall be for a period of 99 years from the date of the agreement.

**22. CONSULTANT FEES FOR FEASIBILITY
STUDIES AND OTHER SPECIAL REPORTS**

A summary of professional services payments made for consultant fees for feasibility studies and other special reports, in compliance with Senate Concurrent Resolution No. 32 of the Extraordinary Session of 1974, is as follows:

Name of Firm or Consultant Who Prepared the Report

NCHS&E Management	\$38,500
Dr. Thomas Snider	5,100
Dr. Edward M. Pessier	5,300
M.T.E.C. Environmental Consultants Incorporated	<u>29,400</u>
Total	<u>\$78,440</u>

23. NATIONAL PARK SERVICE

Under Section 4232 et seq. of Public Law 100-575, the Department of the Interior established the National Center for Preservation Technology and Training at Northwestern State University. This center was created for the purpose of: (1) developing and distributing preservation and conservation skills and technologies for the identification, evaluation, treatment, monitoring, and interpretation of prehistoric and cultural resources; (2) developing and facilitating training for federal, state, tribal, and local cultural resource professionals, cultural resource managers, technicians, and others working in the preservation field; (3) applying technology benefits from research by other agencies and institutions to the preservation field; (4) facilitating the transfer of preservation technology among federal agencies, state, tribal, and local governments,

NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

universities, international organizations, and the private sector, and (3) cooperating with related international organizations. Cooperative activities require substantial involvement by both parties, including collaboration in, and joint participation in, the management of individual projects in connection with the National Center for Preservation Technology and Training.

24. DEFERRED COMPENSATION PLAN

Certain employees of the university participate in the Louisiana Deferred Compensation Plan adopted under the provisions of Internal Revenue Code Section 457. Complete disclosures relating to this statewide plan are available in the financial statements of the State of Louisiana.

25. HOUSING FACILITY AGREEMENT

The university entered into a Ground Lease Agreement for 8.36 acres of university property with Housing Partnership I, LTD. The purpose of this lease is to develop and construct a Student Housing Facility for Northwestern students. The housing facility will consist of 10 buildings, which include approximately 180 apartment units and related facilities. The cost of construction along with maintenance and management of the Student Housing Facility is the responsibility of Housing Partnership I, LTD. The term of the lease is 40 years and will expire at midnight September 1, 2034. Construction of the Student Housing Facility began during the spring of 1994 and was completed by August 1994. The housing facility was available to students for the 1994 fall semester. Compensation for the land lease will be based upon section 3.01 and 3.02 of the lease agreement described as follows:

1. **Base Rent (section 3.01)** - Lessee will pay an annual base rent of \$1,000 payable to the university on September 1, 1994, and like installment due on each anniversary thereafter during the term of the lease.
2. **Percentage Rent (section 3.02)** - Lessee will pay to the university commencing with the academic year ending August 31, 1995, and for each academic year hereinafter during the term of the lease, a percentage rent in an amount equal to the product of (a) 25% and (b) net cash flow less an amount equal to the 5% of net cash flow payable to the improvements owner pursuant to the Improvement Lease. By way of example, if net cash flow during an academic year was \$100,000, the percentage rent would be \$23,750 ($25\% \times (\$100,000 - 5\%) = 25\% \times \$95,000 = \$23,750$). Percentage rent shall be paid to the university no later than 45 days after the close of each academic year. If there is no percentage rent due for any such academic year, any net loss shall be borne solely by lessee and shall not be carried forward in determining percentage rent for the next academic year. The university did not receive any percentage rent payments during the year.

NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

**26. ON-BEHALF PAYMENTS FOR
FRINGE BENEFITS AND SALARIES**

On-behalf payments for fringe benefits and salaries are direct payments made by one entity to a third-party recipient for the employees of another legally separate entity. On-behalf payments include pension plan contributions, employee health and life insurance premiums, and salary supplements or stipends. For example, a non-governmental fund-raising foundation affiliated with a governmental university may supplement salaries of certain university faculty. Those payments constitute on-behalf payments for purposes of reporting by the university if they are made to the faculty members in their capacity as employees of the university (CASH 24). There were no on-behalf payments for fringe benefits and salaries included in the accompanying financial statements for fiscal year 1998.

27. FEDERAL GRANTS

The university participates in a number of federally assisted grant programs reported in the Restricted Fund. These programs are subject to financial and compliance audits mandated by the grantors. An audit of the 1995-96 fiscal year identified questioned cost for certain Title IV programs. As a result of this audit, the U.S. Department of Education requested the university to perform certain procedures to determine the amount of improperly disbursed Title IV funds. On July 25, 1996, the Director of Financial Aid reported \$957,632 of improperly disbursed Title IV funds to the department. On August 31, 1996, the U.S. Department of Education issued a final determination letter stating that the university would have to repay \$456,443. The university received the letter September 14, 1996, and this amount has been reported in the accompanying financial statements.

28. YEAR 2000 ISSUE

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the university's operations as early as fiscal year 1999.

Northwestern State University has planned its course of action to address the Year 2000 Compliant issue. It has assessed the various systems used to compile its financial information to determine if those systems are Year 2000 Compliant. The university has begun the conversion process for its Financial Reporting, Human Resources, Student Information, and List Management systems. Other existing systems identified are also scheduled for conversion at a later date. The university is using the services of contractors, along with its existing staff, to accomplish the conversion process.

The university will form a Year 2000 Compliant committee and appoint a coordinator to address the issue. The committee and coordinator will be responsible for keeping the conversion process current, establishing timelines when the various systems will be converted, and assuring the timely completion of the process. At the present time, the university is scheduled to have the conversion completed by January 1, 1999, for its main systems.

NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

Northwestern State University has undertaken a significant funding commitment to update, replace, or convert hardware and software to meet the Year 2000 challenge. The university expects to spend over \$355,000 during the 1998-99 fiscal year to accomplish this objective.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the university is or will be Year 2000 ready, that the university's remediation efforts will be successful in whole or in part, or that parties with whom the university does business will be Year 2000 ready.

**NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
SUPPLEMENTAL INFORMATION SCHEDULES
As of and for the Year Ended June 30, 1995**

The following supplemental information schedules present the Schedule of Individual Agency Fund Balances and Schedule of Individual Endowment Fund Balances for amounts included in the totals presented on Statement A for the Agency Funds and Endowment Funds, respectively.

**NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
AGENCY FUNDS**

**Schedule of Individual Agency Fund Balances
For the Year Ended June 30, 1999**

Arpas	34,483
Artist Series Fee	210
Club Sports Fee	23,799
Current Grace	18,383
Drama	4,857
KNUVD	38,381
Poloquest	29,837
Races Team	4,195
Rowing Team	3,112
Shreveport - Student Government Association	48,079
Shreveport - SGA Speaker	853
Student Government Association	28,139
SGA Speaker Program	744
Student Union Programs	23,519
Student Intramurals	23,043
Student Trust Fund	82,629
Union Board Drama	17,720
Warrington Campus Council	23,837
SGA Loan Fund	66,268
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Total	540,199
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**NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
ENDOWMENT FUNDS**

**Schedule of Individual Endowment Fund Balances
For the Year Ended June 30, 1998**

Noble Morrison Endowed Professorship in Applied Management Fund	\$187,948
NSU Coughlin-Saunders Endowed Professorship for Nursing and Allied Health Fund	187,250
Joanna Magale Endowed Professorship of Music	142,700
Cecelys-Cone Saunders Endowed Professorship for Nursing and Allied Health	100,808
Richard Lounsbury Foundation Endowed Professorship of Chemistry Fund	195,364
Cyrle M. Botch, Jr. Endowed Professorship of Social Studies	103,045
David Morgan United Teacher Associates Insurance Company Endowed Professorship in Business	102,400
NSU-Coughlin-Saunders Endowed Professorship for Nursing and Allied Health #2 Fund	102,460
NSU-Coughlin-Saunders Endowed Professorship for Nursing and Allied Health #3 Fund	102,460
Frescott McMoran Endowed Professorship in Pluralistic Education	101,100
Donald F. Berky Endowed Professorship for Creative and Performing Arts	101,100
Ann Splice Coughlin Endowed Professorship for Nursing and Allied Health	101,183
Library Trust Fund	75,000
Total	\$1,329,481

**OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

The following pages contain a report on compliance with laws and regulations and on internal controls as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control or compliance matters that would be material to the presented financial statements.



OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BAYOU BOULE, LOUISIANA 70004-1007

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November 20, 1998

Report on Compliance and an Internal Control Over Financial
Reporting Based on an Audit of the Financial Statements
Performed in Accordance With Government Auditing Standards

NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
Natchitoches, Louisiana

We have audited the financial statements of Northwestern State University, a component unit of the State of Louisiana, as of and for the year ended June 30, 1998, and have issued our report thereon dated November 20, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Northwestern State University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northwestern State University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Northwestern State University's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
Compliance and Internal Control Report
November 20, 1998
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Inadequate Controls Over Traffic Tickets and Fines

Northwestern State University does not have controls in place to ensure that all traffic tickets issued by University Police are properly controlled and recorded. An adequate internal control system would ensure that all traffic tickets are properly accounted for and that all the fines due to the university are recorded in the accounting records. In addition, the system should ensure that no individual is in a position to both perpetrate and conceal errors and/or fraud. This lack of controls resulted in the following conditions:

- The TicketTrak System generated the NSU Ticket Report that indicated that University Police issued tickets valued at \$117,477 between July 1, 1997, and February 3, 1998. This report indicated that \$103,972 of the \$117,477 of fines was recorded in the Financial Reporting System (FRS). However, only \$67,882 was actually recorded in the FRS and charged to students or non-student accounts. Therefore, fines of \$50,605 were never recorded in the accounting records.
- A portion of the \$50,605 in fines occurred when the new ticket system was placed on line and the university lost some of the parking permit information. Approximately \$43,508 could not be transmitted to the FRS since the new ticket system was unable to determine if the ticket was issued to a faculty member, student, or visitor.
- University Police issued an additional 2,542 traffic tickets totaling \$21,290, between February 4, 1998, and June 30, 1998, which were not reported or charged to student accounts. The University Police attempted to download the tickets from the computerized hand-held ticket writers into the TicketTrak System, but the tickets did not get into the TicketTrak System. This ticket system does not generate a report that can be used to verify that all tickets written into the computerized ticket writers were successfully accepted by the TicketTrak System.
- Since the fines were not reported or charged to student accounts when the students paid the tickets, they received a credit balance of \$25, which was applied to the next charges incurred by the student. We examined 18 student accounts with \$25 credit balances and found that 14 of the students were enrolled for the fall 1998 semester and the credit for the traffic fines had been applied to their tuition and fee charges. The other four students have credit balances that will eventually be refunded to the students or applied to their accounts if they reenter school at some later date.

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NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
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The Appeals Committee hears requests to void traffic tickets. Once that committee makes its determination, the files are returned to the secretary for the University Police to notify the student of the outcome and to request that the student's account be credited in case of voided tickets. The request to credit the student's account is signed only by the secretary, with no supervisory review or approval.

These conditions resulted when the existing ticket system quit working in August 1997, and a new TicketTask System was purchased and placed into operation in December without performing the tests necessary to determine if the system was properly functioning and interfacing with the appropriate accounting applications. Even though management personnel was aware that a problem existed, no corrective action was taken. The university has not recorded an estimated \$115,625 in traffic fines and ultimately will not collect those revenues. In addition, the university will continue to lose revenues as students with credit balances for unrecorded traffic fines have this credit balance applied to their tuition and fees upon registration in subsequent semesters or refunded if they do not return to the university.

Management should take steps immediately to remedy this situation and ensure that all tickets are recorded in the TicketTask System. In addition, once the appeals committee makes its determination, someone other than University Police personnel should notify the student and the accounting department of the outcome. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A).

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider this reportable condition to be a material weakness.

Other Reports Issued by the Legislative Auditor

In an investigative report dated May 5, 1998, the Legislative Auditor reported that Birdwell's Fire Extinguisher Service appears to have received as much as \$18,231 for services not rendered. A new contractor is presently servicing the university and the appropriate authorities have been notified.

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NORTHWESTERN STATE UNIVERSITY
STATE OF LOUISIANA
Compliance and Internal Control Report
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Our comments on compliance with laws and regulations and internal control structure are intended for the information and use of management of the university. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

WJL:MAN/PP/L:es

2000

Appendix A

Management's Corrective Action Plan and Response to the Finding and Recommendation



September 23, 1998

Dr. David G. Kyle, CPA, CFII
Legislative Auditor
Post Office Box 94097
Baton Rouge, Louisiana 70804-0097

RE: INADEQUATE CONTROLS OVER TRAFFIC FINES

Dear Dr. Kyle:

In response to the above referenced audit finding, the university concurs with the finding and has taken the following actions to address this issue:

- Suspended the use of Dinklerlink hand held ticket writers until fully tested.
- Developed procedures and implemented a manual ticket writing system.
- Contacted the vendor providing the automated ticket system, Cardinal Tracking, and a three-day consultation beginning on mid-October, 1998, has been scheduled.
- Established a line item between University Police and Computer Center for receipt of required reports for ticket assessment.
- Established procedures for the processing and reconciliation of Parking Permit Data Entry.
- Revised procedures for the University Traffic Appeals Committee to notify recipients of traffic tickets and Student Accounting of the status of the appeal.

The university will ensure the system is properly tested and is functioning and interfacing with the appropriate accounting application before using the system.

The Computer Center Director in charge during the audit period is no longer with the university. Computer Center management, personnel, and staffing changes have been made in the Computer Center since the audit period that will ensure this situation is resolved and will not recur.

The Computer Center Director with assistance from the University Police and Business Affairs' staff is responsible for taking corrective action.

Sincerely,



Randall P. Webb
President

RJRC/pw